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Message Text

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ORIGIN EB-07

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

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FM SECSTATE WASHDC
TO AMEMBASSY LONDON PRIORITY
USMISSION EC BRUSSELS
INFO AMEMBASSY BRUSSELS
AMEMBASSY BONN
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY THE HAGUE
AMEMBASSY OTTAWA

C O N F I D E N T I A L STATE 296380

E.O. 11652: N/A

TAGS: ETRD, UK

SUBJECT: UK PLANS TO EXPAND COST OF PRODUCTION
INSURANCE PROGRAM
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REF: LONDON 18713

1. CANADIAN EMBASSY INFORMED US ON INSTRUCTIONS DECEMBER 15 OF A REPORT FROM THEIR HIGH COMMISSIONER IN LONDON THAT UK'S COST OF PRODUCTION INSURANCE PROGRAM WAS BEING REVIEWED WITH THE INTENTION OF EXPANDING IT. SOURCE OF H. C'S REPORT WAS DECEMBER 4 STATEMENT BY SECSTATE FOR TRADE SHORE (REFTEL) AND A SUBSEQUENT CONVERSATION WITH HALL OF ECGD. OUR POSSESSION OF THIS INFORMATION AND ITS SOURCE SHOULD NOT BE REVEALED.

2. HALL INFORMED CANADIANS THAT THE UK PROGRAM WOULD BE EXPANDED SIGNIFICANTLY, WITH THE ANNOUNCEMENT TO COME BEFORE THE END OF THE YEAR. HE SPELLED OUT SEVERAL CHANGES, ALL OR ANY OF WHICH MIGHT BE INCLUDED IN THE REVISED AND EXPANDED PROGRAM. THESE INCLUDED: REDUCING THE MINIMUM LENGTH OF ELIGIBLE CONTRACTS FROM TWO YEARS TO ONE YEAR, REDUCING THE MINIMUM SIZE OF ELIGIBLE CONTRACTS FROM TWO MILLION TO ONE MILLION POUNDS; AND

ELIMINATING THE 20 PERCENT AND 25 PERCENT CEILINGS ON THE INSURABLE BAND FOR CREDIT CONTRACTS AND CASH CONTRACTS RESPECTIVELY, SO THAT COVERAGE WOULD BE AVAILABLE FOR ANY RATE OF COST INCREASE ABOVE 10 PERCENT. HALL ALSO STATED THAT DOMESTIC PRESSURES FOR EXPANSION OF THE PROGRAM WERE FAR STRONGER THAN INTERNATIONAL PRESSURES AGAINST EXPANSION. THE CANADIAN REPORT TENDS TO CONFIRM EMBASSY'S JUDGMENT (REFTEL) THAT CHANGES IN THE PROGRAM, IF MADE, WOULD PROBABLY BE ALONG LINES PROPOSED BY CBI.

3. EMBASSY IS REQUESTED TO CONFIRM CANADIAN REPORT. IF REPORT IS CONFIRMED, EMBASSY IS REQUESTED TO INFORM HMG AT APPROPRIATE LEVEL OF OUR DEEP CONCERN OVER WHAT WE UNDERSTAND TO BE UK'S PLANS. IT SHOULD BE EMPHASIZED THAT UK HAS NEVER SATISFACTORILY REPLIED TO CHARGES THAT THE PROGRAM, AS INITIALLY IMPLEMENTED, CLEARLY VIOLATED THE OECD TRADE PLEDGE,WHICH COVERS MEASURES TO ARTIFICIAL-LY EXPAND EXPORTS. COMING AFTER RE-AFFIRMATION OF THE PLEDGE AND THE RAMBOUILLET DECLARATION'S INJUNCTION CONFIDENTIAL

AGAINST "RESORTING TO MEASURES BY WHICH (COUNTRIES) COULD TRY TO SOLVE THEIR PROBLEMS AT THE EXPENSE OF OTHERS", A SIGNIFICANT EXPANSION OF THE PROGRAM AND OF THE EXPORT SUBSIDIES IT PROVIDES COULD UNDERMINE THE DETERMINATION OF THE INDUSTRIALIZED NATIONS TO AVOID TRADE-DISTORTING MEASURES. EXPANSION OF THE PROGRAM WILL ALSO DOUBTLESS INTENSIFY CONTINUING COMPLAINTS FROM US EXPORTERS. IT SHOULD BE NOTED THAT THE TRADE EFFECT OF

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A SIGNIFICANT EXPANSION OF THE PROGRAM ON UNITED STATES' EXPORTS COULD TURN OUT TO BE MORE SIGNIFICANT THAN THAT OF THE POSSIBLE IMPORT RESTRICTIONS THAT HAVE RECENTLY BEEN THE SUBJECT OF INTENSE HIGH-LEVEL REPRESENTATIONS.

4. EC BRUSSELS IS REQUESTED TO INFORM THE COMMISSION OF THE SUBSTANCE OF THE CANADIAN REPORT, AND OF OUR INTENTION TO REGISTER OUR CONCERN WITH HMG SHOULD THE REPORT BE CONFIRMED. YOU SHOULD NOTE THAT OUR WILLINGNESS DURING THE PAST FEW MONTHS NOT TO PRESS OUR OPPOSITION TO EXPORT INFLATION PROGRAMS OF EC MEMBER STATES WAS CONTINGENT ON OUR UNDERSTANDING THAT THIS WOULDBE COUNTER-PRODUCTIVE TO THE COMMISSIONS EFFORTS TO HAVE THEM PHASED OUT. WE WOULD LOOK TO THE COMMISSION TO REACT STRONGLY AGAINST UK OR OTHER MEMBER STATES' EFFORTS TO EXPAND THEIR EXISTING PROGRAMS. INGERSOLL

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Disposition Case Number: n/a
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